

SPONSOR'S REBUTTAL TO FISCAL NOTE

Bill Number: HB433

Date Prepared: 02/19/2015

Short Title: Providing a tuition tax credit for K-12 education

Sponsor: Rep. Seth Berglee

Fiscal Note Version and Date: Version 1 2/16/2015

Generally, why do you disagree with the fiscal note?

The fiscal note only shows the costs of the tuition credits for existing students in private schools, but makes a very faulty assumption that no new students will transfer to private schools as a result of the tuition tax credit. Thus, the fiscal note doesn't show the substantial savings in State ANB funding resulting from students who move away from public schools into private schools.

Specifically, what in the fiscal note do you feel is flawed?

The fiscal note reflects the extremely flawed assumption by OPI and the Budget Office that no students will be transferred to private schools as a result of this \$1000 credit. It is a faulty assumption for two reasons: 1) It defies logic. Any economist will tell you that a \$1000 tuition price difference will certainly affect people "on the margin"... people who were almost ready to move to private schools but were within \$1000 of being able to afford the tuition. So, economically speaking, there is absolutely no question that at least some people will switch schools. 2) The assumption also directly contradicts assumptions made by OPI and the Budget Office in prior sessions. For example, HB555 in 2001 was a very similar tuition tax credit bill, though the maximum tax credit in early years was significantly less than \$1000. Yet, even with a lower tax credit maximum, the HB555 fiscal note stated clearly that *"It is assumed that, beginning in school year 2001-2002, 0.5% of public school students will transfer to a private school; another 0.5% of public school students will transfer in 2002-2003."* When they clearly argued that the lower tax credit in HB555 would result in a 1% transfer rate in the first 2 years; how can they possibly directly contradict themselves and claim that the higher credit in HB433 will result in zero student transfers?

Because the fiscal note is based on this faulty and contradictory assumption, it doesn't reflect any of the ANB savings to the State General Fund which will result whenever a student is switched from public schools to private schools. Since the maximum tuition tax credit under HB433 is only \$1000, and the ANB savings for each student is well more than twice that much; this fiscal note, if done properly and without bias, would actually show a net positive cash flow to the general fund. In prior sessions with similar bill drafts, the Budget Office and OPI would both acknowledge that ANB savings, and reflect that savings in the fiscal note (see HB555 from 2005,

HB 433

for example.) The simple math would result in HB433 showing a positive fiscal impact of several million dollars, as opposed to a negative impact.

This bill should not need to be referred to Appropriations if the fiscal note were done properly, because the bill was drafted precisely to create a positive fiscal impact.

What is your estimate of the fiscal impact?

Here is a calculation of the omitted savings from the Budget Office's HB433 fiscal note:

According to our Legislative Fiscal Division, the current ANB total for elementary is 105,882 students and current ANB total for high school is 43,253 students.

Per the OPI/Budget office assumption in HB555, we can assume that at least .5% would transfer to private schools the first year under HB433, and another .5% the second year.

Here is a table on average ANB cost provided by our Legislative Fiscal Division:

Montana Public School Funding Components Based on Average Number Belonging									
	FY 2016		FY 2017		FY 2018		FY 2019		
	Average Per ANB	State Share (44.7%)	Average Per ANB	State Share (44.7%)	Average Per ANB	State Share (44.7%)	Average Per ANB	State Share (44.7%)	
Average Per-ANB entitlement *									
Elementary	\$5,555	\$2,483	\$5,660	\$2,530	\$5,730	\$2,561	\$5,800	\$2,593	
High School	\$6,640	\$2,968	\$6,760	\$3,022	\$6,850	\$3,062	\$6,920	\$3,093	
Other Funding Components Based on ANB	FY 2016		FY 2017		FY 2018		FY 2019		
	Average Per ANB	State Share (100%)	Average Per ANB	State Share (100%)	Average Per ANB	State Share (100%)	Average Per ANB	State Share (100%)	
Data for Achievement	\$20.00	\$20.00	\$20.36	\$20.36	\$20.61	\$20.61	\$20.84	\$20.84	
Indian Education for All	\$20.88	\$20.88	\$21.25	\$21.25	\$21.51	\$21.51	\$21.75	\$21.75	

* Total State-wide per-ANB payment divided by total ANB

Note the column 2 totals for FY 2016 State Share of Elementary and High School ANB payments. Also note the \$20 and \$21 per student miscellaneous payments in column 2. Here is a calculation of the ANB savings to the state based on a .5% transfer per year for the first year:

Year 1 .5% student transfer rate x 105,882 elementary students x \$2524 Average total ANB payments = **\$1,336,458 state ANB savings** for elementary school payments. .5% student transfer rate x 43,253 high school students x \$3009 Average total ANB = **\$651,449 state high school ANB savings**. Total Savings for year one = **\$1,987,906**. Using the assumptions in the HB433 fiscal note regarding the average cost of tax credits for these transferring students results in a tax credit cost for these transfers of \$401,240.

ANB savings = \$1,987,906
 Cost of tax Credits for transferring students = \$< 401,240>
Net Savings to General Fund in year 1 = \$1,586,666

Note the column 4 totals for FY 2017 State Share of Elementary and High School ANB payments. Also note the \$20 and \$21 per student miscellaneous payments in column 4. Here is a calculation of the ANB savings to the state based on a 1% cumulative transfer for the second year:

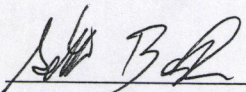
Year 2 1% cumulative student transfers x 105,882 elementary students x \$2571 Average total ANB payments = **\$2,722,689 state ANB savings** for elementary school payments. 1% cumulative student transfers x 43,253 high school students x \$3063 Average total ANB = **\$1,326,279 state high school ANB savings**. Total Savings for year two = \$4,048,968. Using the assumptions in the HB433 fiscal note regarding the average cost of tax credits for these transferring students results in a tax credit cost for these transfers of \$802,480.

ANB savings = \$4,048,968
Cost of tax Credits for transferring students = \$< 802,480>
Net Savings to General Fund in year 1 = \$3,246,488

Thus, the missed ANB net savings from transferring students under this bill for the first two years alone would be \$4,833,154 positive impact to the General Fund.

Regarding future years after the first two years, if the OPI/Budget Office fiscal note is correct in its page 1 assertion that tax credits under HB433 will increase "*exponentially*", then it would also logically follow that the annual savings resulting from reduced ANB payments as students transfer would also increase "*exponentially*".

The bottom line – A properly prepared HB433 fiscal note would actually show a positive fiscal impact of several million dollars, and HB433 should not need to go to Appropriations Committee nor be reflected as a negative hit to the budget.

 20 Feb 2015

Sponsor's signature and date